USAID
FROM THE AMERICAN PEOPLE

Performance and Accountability Report
Fiscal Year 2006

Transforming the World through Diplomacy and Development

USAID
FROM THE AMERICAN PEOPLE

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NGA POPULLI AMERIKAN

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IKAM LONG OL AMERIKA PIPOL

USAID
AMERIKA XALQIDAN

USAID
TIKANG HAN MGA AMERIKANO

USAID
من الشعب الأمريكي

***(Cover Photo)* USAID helps Pakistan recover from the giant earthquake of October 8, 2005.** PHOTO: ONASIA/MASAKO IMAOKA

Performance and Accountability Report

Fiscal Year 2006

Transforming the World through

Diplomacy and Development

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A MESSAGE FROM THE ADMINISTRATOR

I am pleased to present the U.S. Agency for International Development's (USAID) *Performance and Accountability Report for Fiscal Year 2006* (PAR). This report comes at a time of transition for the Agency. Following Secretary Rice's announcement in January of the most significant restructuring of U.S. foreign assistance in decades, USAID is working to streamline processes in order to meet the challenges and opportunities of a new era in foreign assistance.

Recognizing the need for collaboration, the Department of State and USAID have been operating under a joint Strategic Plan for 2004-2009 that captures and articulates U.S foreign policy objectives shared by both agencies. This report captures our performance against the objectives laid out in that plan. In the coming year, we will revise the Joint Strategic Plan to reflect the foreign assistance reforms underway. Doing so will provide the long-term strategic vision necessary to ensure that foreign policy priorities and assistance programs are fully aligned.

From the highest levels, this Administration has made and Congress has supported an enormous commitment to development and transformation. President Bush has made—and is keeping—that commitment. In fact, the total official development assistance (ODA) provided by the United States for 2005 came to $27.6 billion—a near tripling of ODA since 2001.

But these vastly increased resources have also come with new responsibilities—to focus on performance, results, accountability—and ultimately, to define success as the ability of a nation to graduate from aid and become a full partner in international peace and prosperity. This is precisely what the Secretary has acknowledged in establishing the transformational diplomacy goal of "helping to build and sustain well-governed, democratic states that respond to the needs of their people and conduct themselves responsibly in the international system."

Ambassador Randall L. Tobias
Director of U.S. Foreign Assistance and Administrator
U.S. Agency for International Development

This is now the overarching goal of all U.S. foreign assistance. From this point forward, all USAID and State Department foreign assistance funds will be planned, allocated, and measured against achieving this goal. Under the Secretary's leadership, the United States seeks to reform its organization, planning, and implementation of foreign assistance in order to achieve this goal.

A fundamental purpose of this reform is, in the end, to better ensure that we are providing both the necessary tools and the right incentives for host governments to secure the conditions necessary for their citizens to achieve their full human potential. We cannot provide those tools and incentives absent transparency and accountability. The report that follows provides—for the first time ever—a joint State-USAID performance section.

This is an important step upon which we will continue to build in order to honor our long-standing commitment to being effective and accountable stewards of taxpayer dollars.

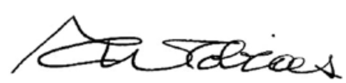
Remarkably, the United States has never before had an integrated foreign assistance strategy. We have not had a consistent and comprehensive story to tell to our various stakeholders, including Congress and the American public. This new strategic approach will help us tell the story of what we are trying to accomplish, and provide the basis for evaluating our progress—not just within one agency, but across the U.S. government.

I believe USAID has a tremendous contribution to make in writing that story. The men and women of USAID have the experience and expertise that are crucial to meeting the unprecedented development challenges of this century—a time which sees the world at once ripe with democratic promise and menaced by global terrorism.

As evidenced by our continued commitment to addressing challenges—from the needs created by genocide in Sudan; to the toll taken by diseases like HIV/AIDS and malaria; to our work in rebuilding both physical and human capacity following conflict in Afghanistan, Iraq, and Lebanon—each of us who works at USAID is driven by the belief that peaceful societies, where healthy and well-educated people are free to provide for themselves and their families, are aspirations of human beings regardless of ethnicity, religion, or geographic location.

This core belief in human potential—and the understanding that the United States can and should play a role in helping people around the world strive for and achieve those aspirations—is the cause that draws us together and drives us to perform. As we move forward on foreign assistance reform, I am confident that the Agency—and the entire U.S. government—will be in a better position to report on that performance.

I hereby certify that the financial and performance data in the FY 2006 PAR are reliable and complete, except for the inadequacies detailed within this report. A discussion of actions that USAID is taking to resolve these issues is also provided in this report. This PAR contains the Agency's performance information as required by the Government Performance and Results Act (GPRA); our audited consolidated financial statements as required by the Chief Financial Officers (CFO) Act and the Government Management Reform Act (GMRA); a report on management decisions and actions in response to audit reports issued by the Agency's Inspector General (IG) as required by the Inspector General Act; and a report on our management and internal controls as required by the Federal Managers' Financial Integrity Act (FMFIA).

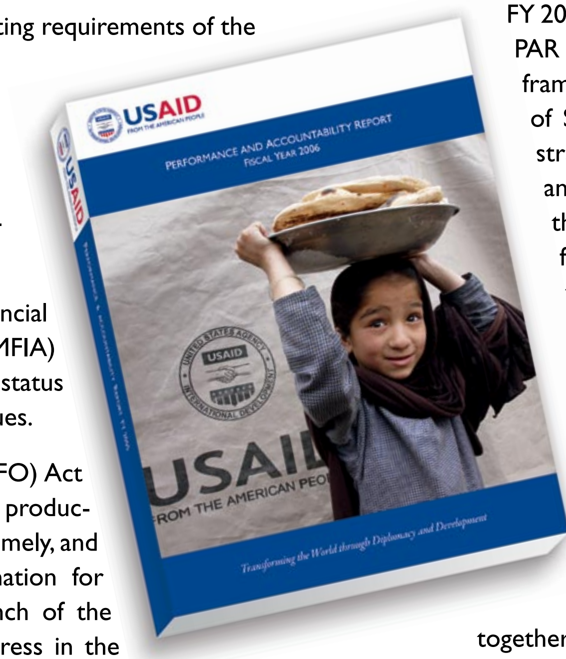


Ambassador Randall L. Tobias
Director of U.S. Foreign Assistance and Administrator
U.S. Agency for International Development
November 15, 2006

ABOUT THIS REPORT

PURPOSE OF REPORT

The U.S. Agency for International Development's (USAID) Performance and Accountability Report (PAR) for fiscal year (FY) 2006 provides performance and financial information that enables Congress, the President, and the public to assess the performance of the Agency relative to its mission and stewardship of the resources entrusted to it. This PAR satisfies the reporting requirements of the following legislation:



- Inspector General (IG) Act of 1978 (Amended) – requires information on management actions in response to IG audits.
- Federal Managers' Financial Integrity Act of 1982 (FMFIA) – requires a report on the status of management control issues.
- Chief Financial Officers (CFO) Act of 1990 – provides for the production of complete, reliable, timely, and consistent financial information for use by the executive branch of the government and the Congress in the financing, management, and evaluation of federal programs.
- Government Management Reform Act of 1994 – requires Agency audited financial statements.
- Government Performance and Results Act of 1993 (GPRA) – requires an annual report of performance results achieved against Agency goals.
- Federal Financial Management Improvement Act of 1996 (FFMIA) – requires an assessment of financial systems for adherence to government-wide requirements.
- Reports Consolidation Act of 2000 – authorizes federal agencies to consolidate various reports in order to provide performance, financial, and related information in a more meaningful and useful format.

FY 2006 USAID PERFORMANCE AND ACCOUNTABILITY HIGHLIGHTS

For the fourth year in a row, the Agency received an unqualified ("clean") audit opinion from its independent auditors, attesting to its exemplary stewardship of the public funds entrusted to it.

FY 2006 is the third year in which USAID's PAR reports against a strategic planning framework shared with the Department of State. This framework reflects the strategic objectives, strategic goals, and performance goals set forth in the Joint State-USAID Strategic Plan for FY 2004–2009. Consistent with the Joint Strategic Plan, this year's PAR includes a Joint State-USAID Performance Section. The Joint Performance Section clearly identifies those indicators that are managed by USAID, and the indicators managed by State are also included to provide a more complete picture of how the two agencies are working together in support of common objectives and goals. Each indicator table in the Joint Performance Section shows the logo of the agency responsible for gathering, validating, and reporting the performance data for that indicator, as shown below:

USAID

Department of State

USAID and the Department of State are reporting separately on agency-specific resources invested to achieve performance and strategic goals.

Many of USAID's performance results for FY 2006 are preliminary because the Agency's final fiscal year data are typically not available until mid-to late December. This necessitates estimating performance results based on partial year data, a practice accepted by the Office of Management and Budget (OMB) for purposes of reporting in the PAR.

HOW THIS REPORT IS ORGANIZED

- MESSAGE FROM THE USAID ADMINISTRATOR

The Administrator's message relates the Agency's accomplishments and priorities and provides an assessment of whether financial and performance data in the report is reliable and complete.

- *Section 1:* MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The MD&A is a concise overview of the entire report, similar to an Executive Summary in a private company's annual report. It includes an organizational overview; a brief analysis of performance goals, objectives and results; an overview of financial performance; a description of systems, controls, and legal compliance; and information on the Agency's progress in implementing the President's Management Agenda (PMA) and addressing the requirements for Improper Payments Information Act (IPIA) reporting. The MD&A is supported and supplemented by detailed information contained in the Performance, Financial, and Other Accompanying Information (OAI) sections.

- *Section 2:* JOINT PERFORMANCE SECTION

This year's Joint Performance Section, prepared together with the Department of State, captures performance data from both agencies that support shared goals and objectives. The section clearly distinguishes between USAID and Department of State indicators, and reports separately on agency-specific resources invested. The section contains the annual program performance information required by the GPRA, including a summary of programs assessed using OMB's Program Assessment Rating Tool (PART). Combined with the MD&A and Appendices, this PAR includes all of the required elements of an annual program performance report as specified in the OMB Circular A-11, Preparing, Submitting and Executing the Budget and Circular A-136, Financial Reporting Requirements.

- *Section 3:* FINANCIAL SECTION

This section contains a message from the Chief Financial Officer (CFO) describing progress and challenges pertaining to the Agency's financial management, including information on the Agency's compliance with laws and regulations, the Agency's financial statements and related Independent Auditor's Report, and other Agency-specific statutorily required reports pertaining to the Agency's financial management. For more information on this section, please contact the office of the CFO at (202) 712-1980.

- *Section 4:* OTHER ACCOMPANYING INFORMATION (OAI)

This section includes the IG's Statement on Significant Management and Performance Challenges along with the Agency's analysis and response, and additional detail regarding IPIA reporting.

- APPENDICES
  - Appendix A: Justifications for Excluded Indicators
  - Appendix B: Abbreviations and Acronyms

Management's Discussion and Analysis

(Above) **USAID-sponsored microlending improves lives in the post-war climate of Southern Sudan. A woman uses her small loan to start selling smoked fish at the market.**

PHOTO: CHEMONICS/LAURA LARTIGUE

(Preceding page) **In Afghanistan, USAID provides millions of textbooks and renovates or builds hundreds of schools, from primary through university.**

PHOTO: USAID/BEN BARBER

MISSION ORGANIZATION AND STRUCTURE

MISSION

Create a more secure, democratic, and prosperous world for the benefit of the American people and the international community.

VALUES

Loyalty: Commitment to the United States and the American people.

Character: Maintenance of high ethical standards and integrity.

Service: Excellence in the formulation of policy and management practices with room for creative dissent. Implementation of policy and management practices, regardless of personal views.

Accountability: Responsibility for achieving United States foreign policy goals while meeting the highest performance standards.

Community: Dedication to teamwork, professionalism, and the customer perspective.

USAID HISTORY

The Foreign Assistance Act of 1961 effectively reorganized U.S. government foreign assistance programs, including the separation of military and non-military aid. The act placed primary emphasis on long-range economic and social development assistance efforts and mandated the creation of an agency to administer programs in support of these efforts. Two months after passage of the act, President John F. Kennedy established the U.S. Agency for International Development (USAID).

USAID unified pre-existing U.S. government assistance programs, combining the economic and technical assistance operations of the International Cooperation Agency, the loan activities of the Development Loan Fund, the local currency functions of the Export-Import Bank, and the agricultural surplus distribution activities of the Food for Peace program of the U.S. Department of Agriculture (USDA).

USAID has undergone a number of restructurings over the years to improve its performance, but the foreign assistance reforms announced by Secretary of State Condoleezza Rice in January 2006 reflect major changes in the way that the Agency will plan and execute its programs. With implementation commencing in FY 2007, the reforms will more fully align foreign assistance activities carried out by USAID and the Department of State.

OUR ORGANIZATION

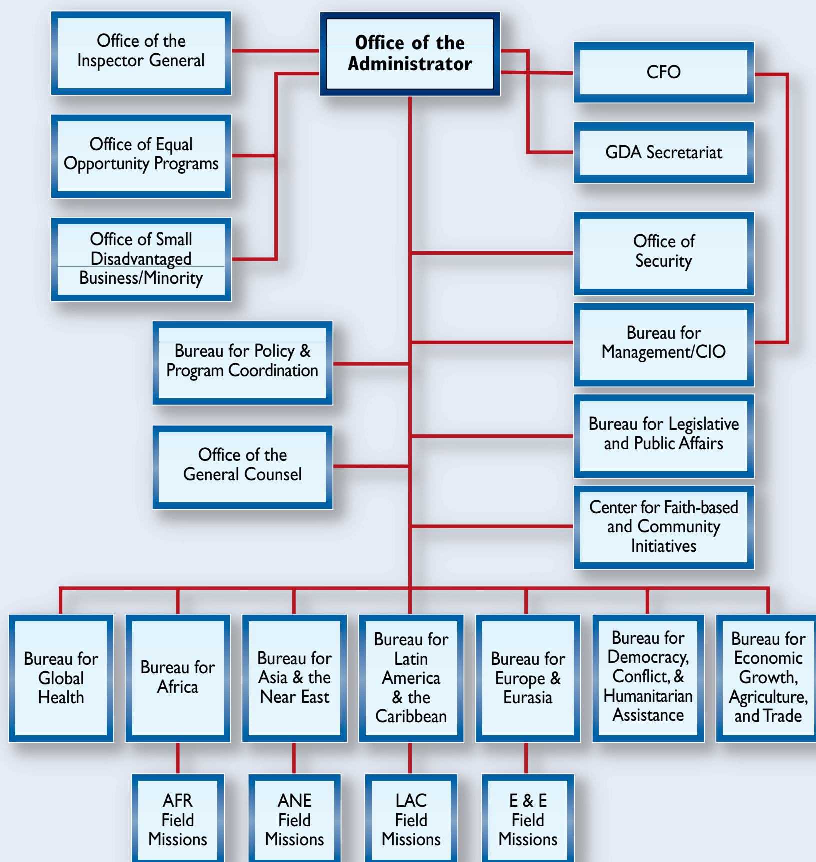
ORGANIZATIONAL STRUCTURE IN WASHINGTON, D.C.

As part of the foreign assistance reforms announced in January 2006, Secretary Rice created the Office of the Director of Foreign Assistance within the Department of State (State/F). The Director of this Office, Ambassador Randall L. Tobias, serves concurrently as the USAID Administrator. The Director of Foreign Assistance has authority over USAID and Department of State foreign assistance funding and programs, bringing together various bureaus and offices within the two agencies to participate in joint program planning, implementation, and oversight. To facilitate this consolidation of policies and procedures, staff from USAID's Bureau for Policy and Program Coordination (PPC) have been detailed to State/F.

USAID's Bureau for Management administers a centralized support services program for the Agency's worldwide operations. The Bureau for Legislative and Public Affairs develops and implements outreach programs to promote understanding of USAID's missions and programs. The secretariat for the Global Development Alliance (GDA) operates across the four regional bureaus to support the development of public-private alliances. USAID also includes five offices that support the Agency's security, business, compliance, and diversity initiatives. It also maintains a Center for Faith-Based and Community Initiatives.

Although additional restructuring at USAID headquarters may occur over time, USAID's mission is currently carried out through four regional bureaus in Washington: Africa (AFR), Asia and the Near East (ANE); Latin America and the Caribbean (LAC); and Europe and Eurasia (E&E). The regional bureaus are supported by three functional (or pillar) bureaus that provide expertise in democracy and governance, conflict management and mitigation, humanitarian assistance, economic growth, trade opportunities, agricultural productivity and technology, and global health challenges, such as maternal and child health and HIV/AIDS.

USAID ORGANIZATION CHART



ORGANIZATIONAL STRUCTURE OVERSEAS

USAID implements programs in 88 countries overseas and its organizational units are known as "field missions." The U.S. Ambassador serves as the Chief of Mission for all U.S. government agencies in a given country and the USAID Director reports to the Ambassador. The USAID Director or Representative is responsible for USAID's operations in a given country or region and also serves as a key member of the U.S. government's "country team." The Director or Representative is often called upon to stand in for the Ambassador or the Deputy Chief of Mission during their absences.

USAID missions operate under decentralized program authorities, allowing them to design and implement programs and negotiate and execute agreements. The Director of USAID's Office of Acquisitions and Assistance issues warrants to field-based contracting officers, authorizing them to negotiate, execute, amend, and modify contracts, grants, and cooperative agreements. Executive officers are delegated authority to sign leases for real property. Mission directors and principal officers are also delegated authority to:

- coordinate with other U.S. government agencies
- waive source, origin, and nationality requirements for procurement of goods and services
- negotiate, execute, and implement food aid agreements
- implement loan and credit programs.

Large USAID missions usually consist of nine to 15 U.S. direct-hire (USDH) employees (with a few very large missions having more than fifteen). These missions conduct USAID's major programs worldwide, managing a program of four or more strategic goals on average.

Medium size missions (five to eight USDH) manage programs of two to three goals, and small missions (three to four USDH) manage one or two strategic goals. These missions provide assistance based on an integrated strategy that includes clearly defined program objectives and performance targets.

Regional support missions (typically 16 to 22 USDH), also known as regional hubs, provide a variety of services. The hubs retain a team of legal advisors, contracting and project design officers, financial services managers, and sometimes technical officers to support small and medium-sized missions and non-presence countries which receive USAID funding. In countries without integrated strategies but where aid is necessary, regional missions work with non-governmental organizations (NGO) or other partner organizations programs to facilitate the emergence of civil society, help alleviate repression, meet basic human needs, mitigate conflict, and/or enhance food security. Regional missions may also have their own bilateral programs to manage.

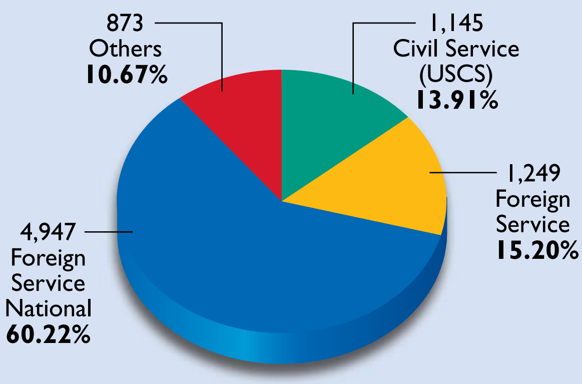
The field mission workforce is typically composed of three major categories of personnel: USDH employees (including program-funded foreign service limited [FSL] appointments), U.S. personal services contractors (USPSC), and foreign service nationals (FSN). USDHs are career foreign service employees assigned to missions for two to four-year tours. Program-funded FSLs are hired under a special authority granted by Congress to replace contracted personnel, such as USPSCs. USPSCs are contractors hired for up to five years to carry out a scope of work specified by USAID. FSNs, professionals recruited in their host countries by USAID, make up the core of the USAID workforce. Many FSNs are recognized leaders and experts in their fields and devote their careers to USAID. FSNs are the bridge to effective contacts with key host country officials and decisionmakers, and they provide the institutional memory for and continuity of USAID's country programs. They are the backbone of USAID's overseas workforce.

USAID also stations officers where opportunities exist to leverage policy and resources in support of high priority strategic issues; the Agency currently has officers stationed in Paris, Tokyo, Brussels, Geneva, and Rome.

USAID'S PEOPLE

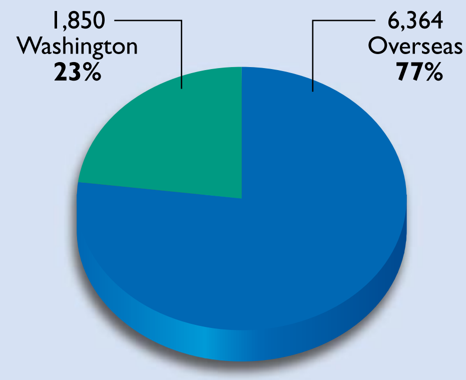
USAID's workforce consists of more than 8,200 employees in the foreign service and civil service, as well as FSNs and those in other categories, including employees detailed from other U.S. government agencies, personal service contractors, and fellows. As the charts below indicate, Foreign Service Nationals make up over 60 percent of USAID's workforce. Approximately 77 percent of the total USAID workforce serves overseas.

Workforce Composition: Full-time Employees
as of September 30, 2006



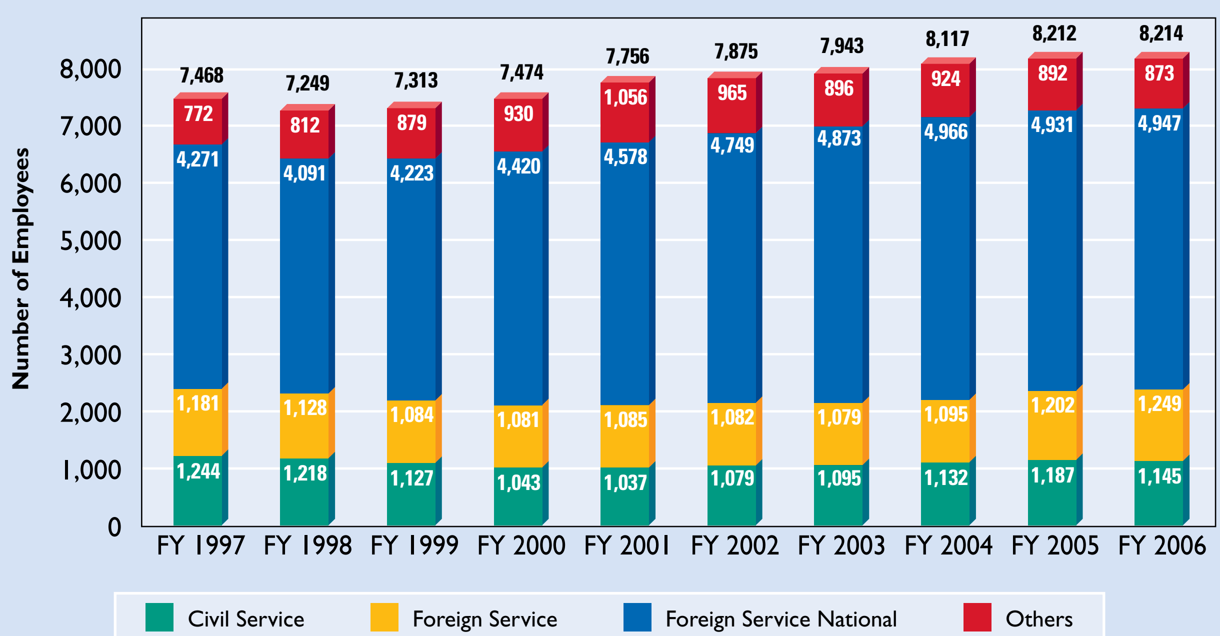
Total Full-time Employees: 8,214

Workforce Location: Full-time Employees
as of September 30, 2006



Total Full-time Employees: 8,214

Summary of Full-time Permanent Employees



PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

USAID AND DEPARTMENT OF STATE: JOINT STRATEGIC PLANNING AND REPORTING

Given the close coordination and complementary nature of USAID and the Department of State's foreign assistance programs, the agencies issued a Joint State-USAID Strategic Plan for FY 2004-2009[1]. This plan included a planning framework with 12 strategic goals, focusing on policy, program, and management that reflect the agencies' highest priorities. USAID has focused its work around three of the four strategic objectives and eight of the 12 strategic goals that capture the breadth of its mission (see the Joint State-USAID Strategic Planning Framework on the next page). USAID either does not have programs in the remaining four strategic goal areas, or does not have meaningful indicators or targets which require reporting of performance results in the Performance and Accountability Report (PAR).

Consistent with the Joint State-USAID Strategic Plan, this year's PAR now includes a Joint State-USAID Performance Section. Although the Joint Performance Section clearly identifies those indicators that are managed by USAID, the indicators managed by the Department of State are also presented to provide a more complete picture of how the two agencies are working together in support of the three strategic objectives and eight strategic goals that they share. USAID and the Department of State are also reporting separately on agency-specific resources invested to achieve these performance and strategic goals.

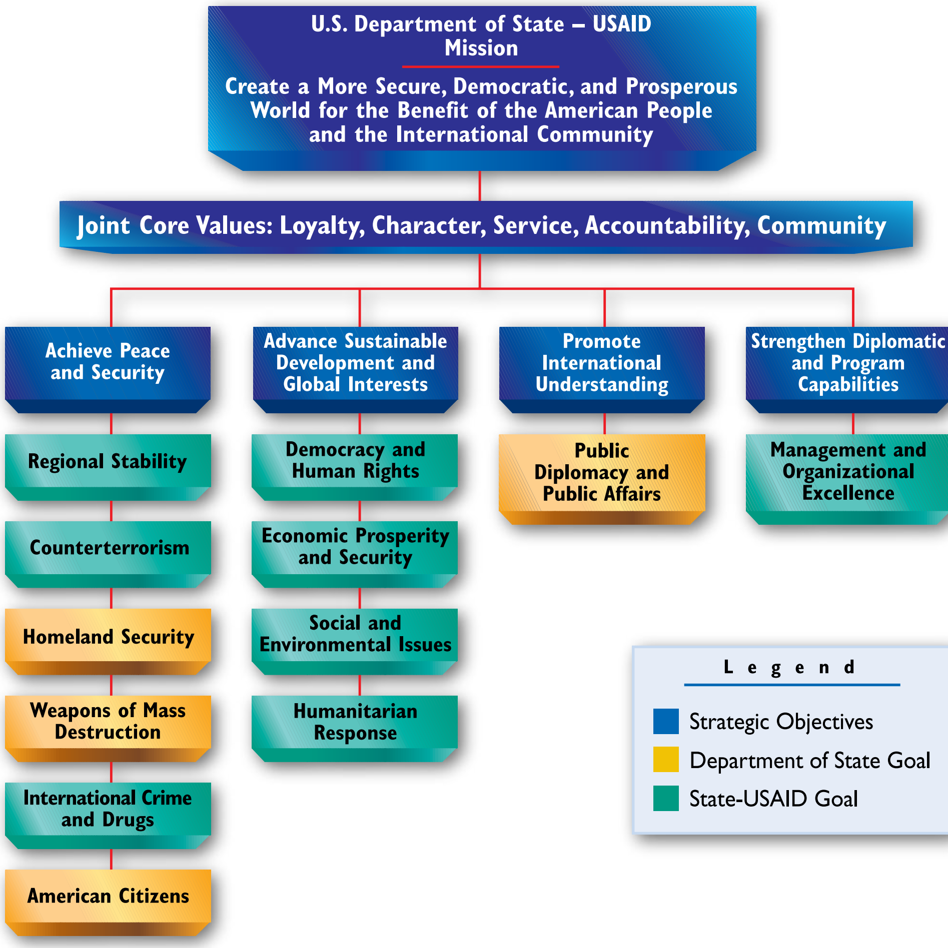
Each indicator table in the Performance Section shows the logo of the agency responsible for gathering, reporting, and validating the performance data for that indicator, as shown below:

USAID

Department of State

1. This plan will be revised in FY 2007 to reflect the foreign assistance reforms announced by Secretary of State Rice in January 2006.

JOINT STATE-USAID STRATEGIC PLANNING FRAMEWORK



The FY 2004-2009 Joint State-USAID Strategic Plan can be found online at the following link:

- http://www.state.gov/m/rm/rls/dosstrat/2004/

STRATEGIC PLANNING FRAMEWORK QUICK REFERENCE GUIDE

Strategic Objective	Strategic Goals	Performance Goals
Achieve Peace and Security	**Regional Stability:** Avert and resolve local and regional conflicts to preserve peace and minimize harm to the national interests of the United States.	Close ties with allies and friends
		Resolution of regional conflicts
	Counterterrorism: Prevent attacks against the United States, its allies, and its friends; and strengthen alliances and international arrangements to defeat global terrorism.	Active anti-terrorist coalitions (Department of State only)
		Frozen terrorist financing (Department of State only)
		Prevention and response to terrorism (Department of State only)
		Stable conditions in fragile/failing states
	International Crime and Drugs: Minimize the impact of international crime and illegal drugs on the United States and its citizens.	Disruption of criminal organizations
		Law enforcement and judicial systems
Advance Sustainable Development and Global Interests	**Democracy and Human Rights:** Advance the growth of democracy and good governance, including civil society, the rule of law, respect for human rights, and religious freedom.	Democratic systems and practices
		Universal human rights standards
	Economic Prosperity and Security: Strengthen world economic growth, development, and stability, while expanding opportunities for U.S. businesses and ensuring economic security for the nation.	Economic growth and development
		Trade and investment
		Secure and stable markets
		Food security and agricultural development
	Social and Environmental Issues: Improve health, education, environment, and other conditions for the global population.	Global health
		Environmental protection
		Access to quality education
		Migration policies and systems (Department of State only)
	Humanitarian Response: Minimize the human costs of displacement, conflicts, and natural disasters.	Assistance for refugees and other victims
		Disaster prevention/response via capacity building
Strengthen Diplomatic and Program Capabilities	**Management and Organizational Excellence:** Ensure a high quality workforce supported by modern and secure infrastructure and operational capabilities.	Human resources and training
		Information technology (IT)
		Diplomatic security (Department of State only)
		Overseas and domestic facilities
		Resource management
		Administrative services

FIVE-TIERED METHODOLOGY

The Agency is committed to utilizing the funds it receives from taxpayers through Congress to produce successful results. In FY 2006, USAID employed the programming and reporting structure depicted in the pyramid to the right. USAID reports on performance at several levels, with each descending level representing a more detailed breakout of the programs USAID implements. At the USAID operating unit level, indicators are drawn from a set of common program components utilized across the Agency. These indicators measure progress toward an operating unit's strategic objectives, which in turn measure achievement toward performance goals. Performance results in this report utilize program component indicators aggregated across the Agency to report at the performance goal levels shared with the Department of State.

USAID Programming Hierarchy

DATA RELIABILITY, COMPLETENESS, AND VALIDITY

USAID performance results for FY 2006 are matched to the performance and strategic goals in the Joint State-USAID Strategic Plan. Many of these results are preliminary because USAID's final fiscal year performance results are typically not available until mid to late-December. This necessitates estimating performance results data, a practice accepted by the Office of Management and Budget (OMB) for purposes of reporting in the PAR. Acceptable methods for data estimation include (1) expert opinion, (2) historical trends, (3) extrapolation, and (4) sampling and statistics.

As indicated in the Agency's Automated Directive System (ADS) Chapter 203.3.5, (http://www.usaid.gov/policy/ads/200/203.pdf), the data provided by USAID operating units for these estimates are expected to be verified through Data Quality Assessments (DQA) and meet five data quality standards of validity, integrity, precision, reliability, and timeliness.

The methodology used for obtaining the data must be well documented and each operating unit must provide annual certification of its strategic objectives and their relationship to the Agency's strategic goals.

In FY 2006, USAID's Office of the Inspector General (OIG) conducted a limited review of USAID's internal controls for verifying its data. The OIG determined that the Agency's compliance with its policies and procedures for verifying performance data needs improvement. USAID intends to address this issue as part of the new performance management information system being developed to support foreign assistance reform.

All final performance results will be reported after year-end data is received from field operating units later in the calendar year.

PERFORMANCE SUMMARY

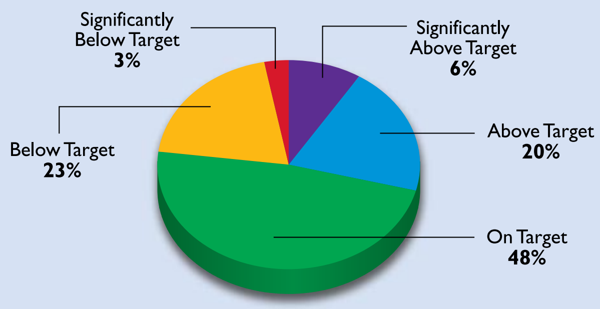
SUMMARY OF USAID FY 2006 PERFORMANCE RATINGS

During FY 2006, USAID and the Department of State closely reviewed and significantly reduced the number of indicators used to track performance. A joint State-USAID team of performance analysts reviewed the indicator set published in the FY 2006 Joint Performance Plan, and in consultation with program managers, replaced weak indicators and imprecise targets with measures that better track progress toward highest-level outcomes and strategic goals. As a result, the number of indicators against which the Department of State and USAID are reporting in the FY 2006 PAR was reduced from 286 to 129 and of these 129 indicators, 35 are managed by USAID.

The following pie chart shows the ratings distribution for these 35 USAID performance indicators, reported across all strategic goals.

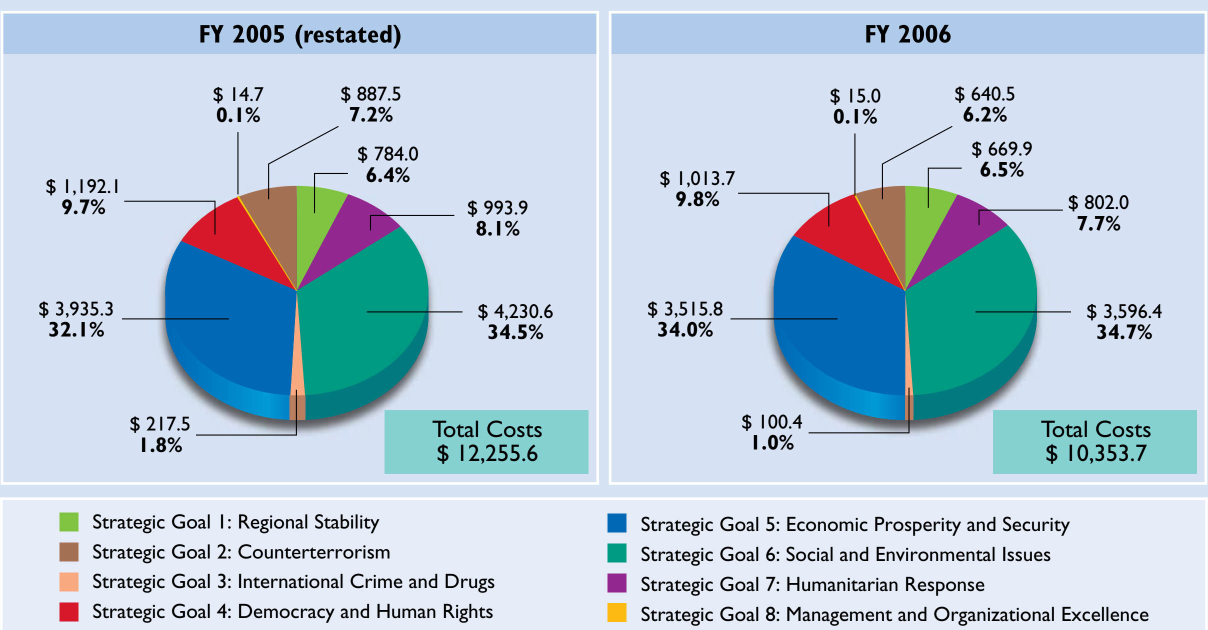
As shown, 74 percent of the ratings were "On Target", "Above Target" or "Significantly Above Target", meaning that these initiatives or programs met or exceeded performance targets.

SUMMARY OF USAID FY 2006 PRELIMINARY PERFORMANCE RESULTS



Performance Rating	Number of Results
Significantly Above Target	2
Above Target	7
On Target	17
Below Target	8
Significantly Below Target	1
Total Number of Results	35

USAID NET PROGRAM COSTS DEDICATED TO STRATEGIC GOALS *(Dollars in Millions)*



SUMMARY OF USAID FY 2006 RATINGS BY PERFORMANCE GOAL

The table below provides performance results, by performance goal, for each of the 35 indicators selected for reporting in this PAR. The inverted black triangle represents the average of all performance ratings assigned to results associated with the performance goal. The numbers in the graphs show how the ratings are distributed among the estimated FY 2006 results. Details on the methodology used to calculate these ratings are provided in the Performance Section.

Strategic Goal	Performance Goal *(Total Number of Reported Results)*	Average Performance Rating and Number of Reported Results: Significantly Below Target	Below Target	On Target	Above Target	Significantly Above Target
Regional Stability	Existing and emergent regional conflicts are contained or resolved. *1 Result*	0	0	0	0	1
Counterterrorism	Stable political and economic conditions that prevent terrorism from flourishing in fragile or failing states. *1 Result*	0	0	0	1	0
International Crime and Drugs	International trafficking in drugs, persons, and other illicit goods disrupted and criminal organizations dismantled. *2 Results*	0	1	0	1	0
Democracy and Human Rights	Measures adopted to develop transparent and accountable democratic institutions, laws, and economic and political processes and practices. *1 Result*	0	1	0	0	0
Economic Prosperity and Security	Institutions, laws, and policies foster private sector-led economic growth, macroeconomic stability, and poverty reduction. *2 Results*	0	0	1	1	0
	Increased trade and investment achieved through market-opening international agreements and further integration of developing countries into the trading system. *1 Result*	0	1	0	0	0
	Secure and stable financial and energy markets. *1 Result*	0	0	1	0	0
	Enhanced food security and agricultural development. *1 Result*	0	0	0	0	1

Strategic Goal	Performance Goal (*Total Number of Reported Results*)	Average Performance Rating and Number of Reported Results				
		Significantly Below Target	Below Target	On Target	Above Target	Significantly Above Target
Social and Environmental Issues	Improved global health, including child, maternal, and reproductive health, and the reduction of abortion and disease, especially HIV/AIDS, malaria, and tuberculosis. *12 Results*	0	3	8	1	0
	Partnerships, initiatives, and implemented international treaties and agreements that protect the environment and promote efficient energy use and resource management. *3 Results*	0	0	2	1	0
	Broader access to quality education with emphasis on primary school completion. *2 Results*	1	0	1	0	0
Humanitarian Response	Effective protection, assistance, and durable solutions for refugees, internally displaced persons, and conflict victims. *3 Results*	0	2	0	1	0
	Improved capacity of host countries and the international community to reduce vulnerabilities to disasters and anticipate and respond to humanitarian emergencies. *1 Result*	0	0	1	0	0
Management and Organizational Excellence	A high performing, well-trained, and diverse workforce aligned with mission requirements. *1 Result*	0	0	1	0	0
	Modernized, secure, and high quality information technology management and infrastructure that meet critical business requirements. *2 Results*	0	0	1	1	0
	Secure, safe, and functional facilities serving domestic and overseas staff. *1 Result*	0	0	1	0	0

ANALYSIS OF USAID'S FINANCIAL STATEMENTS

USAID's financial statements, which appear in the Financial Section of this report, received for the fourth consecutive year an unqualified audit opinion issued by the USAID Office of the Inspector General (OIG). Preparing these statements is part of the Agency's goal to improve financial management and provide accurate and reliable information useful for assessing performance and allocating resources. Agency management is responsible for the integrity and objectivity of the information presented in these financial statements.

USAID prepares consolidated financial statements that include a Balance Sheet, a Statement of Net Cost, a Statement of Changes in Net Position, a Statement of Budgetary Resources, and a Statement of Financing. These statements summarize the financial activity and position of the Agency. Highlights of the financial information presented on the principal statements are provided below.

OVERVIEW OF FINANCIAL POSITION

ASSETS. The Consolidated Balance Sheet shows the Agency had Total Assets of $25.1 billion at the end of 2006. This represents a two percent increase over the previous year's Total Assets of $24.7 billion. This is primarily the result of increased fund balances during the year as well as an increase in the USAID Foreign Currency balances.

Table 1: The Agency's assets reflected in the Consolidated Balance Sheet are summarized in the following table *(dollars in thousands):*

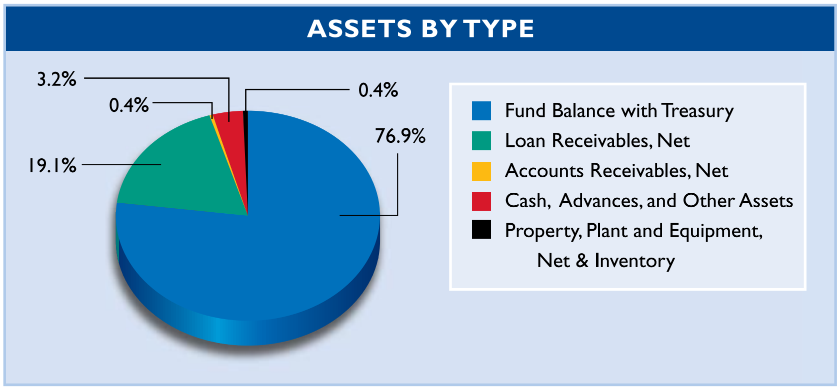
	2006	2005	2004
Fund Balance with Treasury	$19,333,383	$17,503,843	$15,854,926
Loans Receivable, Net	4,810,615	5,100,249	6,108,252
Accounts Receivable, Net	91,393	902,863	1,100,968
Cash, Advances, and Other Assets	811,715	1,063,570	847,807
Property, Plant and Equipment, Net & Inventory	103,994	140,294	117,718
Total	$25,151,100	$24,710,819	$24,029,671

Fund Balance with Treasury and Loans Receivable, Net, comprise the majority of USAID's assets, and together they account for over 90 percent of total assets. USAID maintains funds with Treasury to pay its operating and program expenses. These funds increased by $1.8 billion (10.5 percent). The $1.8 billion increase in Fund Balance with Treasury is primarily due to a liquidation of an outstanding receivable with the Commodity Credit Corporation. During 2006, the Commodity Credit Corporation changed their business practice and will provide funding simultaneously when granting obligational authority. In addition, the Commodity Credit Corporation decided to liquidate the outstanding receivable by transferring $1 billion to USAID's Treasury account. Consequently, the intragovermental accounts receivable decreased by $1 billion.

Loans Receivable experienced a six percent decrease from FY 2005. This is primarily due to collections made in 2006 as well as changes in the yearly credit program allowance calculations.

The chart below presents USAID's asset type by percentage for FY 2006.

Chart 1: Percentage of Assets by Type, FY 2006



LIABILITIES. As presented on the Consolidated Balance Sheet, the Agency had $9.5 billion in Total Liabilities at the end of 2006. This amount represents a $1.5 billion, or 14 percent decrease in Total Liabilities from the prior year.

Table 2: The Agency's Liabilities reflected in the Consolidated Balance Sheet are summarized in the following table *(dollars in thousands):*

	2006	2005	2004
Debt & Due to U.S. Treasury	$ 4,965,132	$ 5,734,263	$ 6,145,006
Accounts Payable	2,329,797	3,204,824	2,373,001
Loan Guaranty Liability	1,660,909	1,562,485	1,039,937
Other Liabilities	494,877	444,571	798,847
Total Liabilities	$ 9,450,715	$10,946,143	$ 9,973,791

As reflected in Table 2, Liabilities comprised of Debt and Due to U.S. Treasury and the Accounts Payable asset type represent most of USAID's Total Liabilities. Debt and Due to Treasury combined represented 52.5 percent of Total Liabilities for FY 2006, and Accounts Payable comprised 24.7 percent of Total Liabilities for FY 2006.

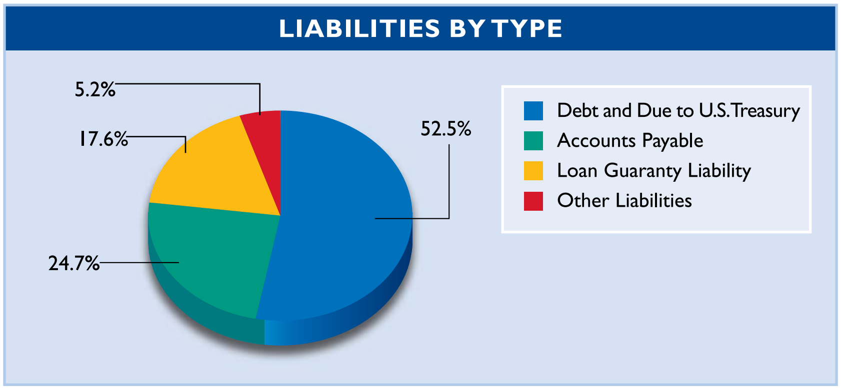
Debt and Due to Treasury combined decreased by 19.2 percent, or $769 million, from FY 2005. Accounts Payable decreased by 27.3 percent or by $875 million from FY 2005. Many factors are attributable to this decrease, such as a $551 million adjustment to reduce subsidy payable to the credit program financing fund in FY 2006.

As part of intergovernmental transactions, debt that resulted from the Bureau of Public Debt (BPD) debt restructuring program increased by 12 percent, which is the result in borrowing from the Treasury. The Due to U.S. Treasury account reflecting the result of activities in pre-credit reform liquidating funds decreased by 15 percent or $821 million.

The largest percentage change in Liabilities occurred in the non-federal line items. Specifically, Accounts Payable program funds increased $600 million, a 24 percent increase from FY 2005. This change is primarily the result of an increase of accounts payable accruals at year end.

The chart below presents USAID's percentage of liabilities by type for FY 2006 *(dollars in thousands):*

Chart 2: Percentage of Liabilities by Type, FY 2006



ENDING NET POSITION. Net Position is the sum of the Unexpended Appropriations and Cumulative Results of Operations. USAID's Net Position at the end of 2006 on the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position was $15.7 billion, a $1.9 billion increase from the previous fiscal year. Unexpended Appropriations of $14.3 billion or 91 percent represent funds appropriated by Congress for use over multiple years that were not expended by the end of FY 2006.

RESULTS OF OPERATIONS

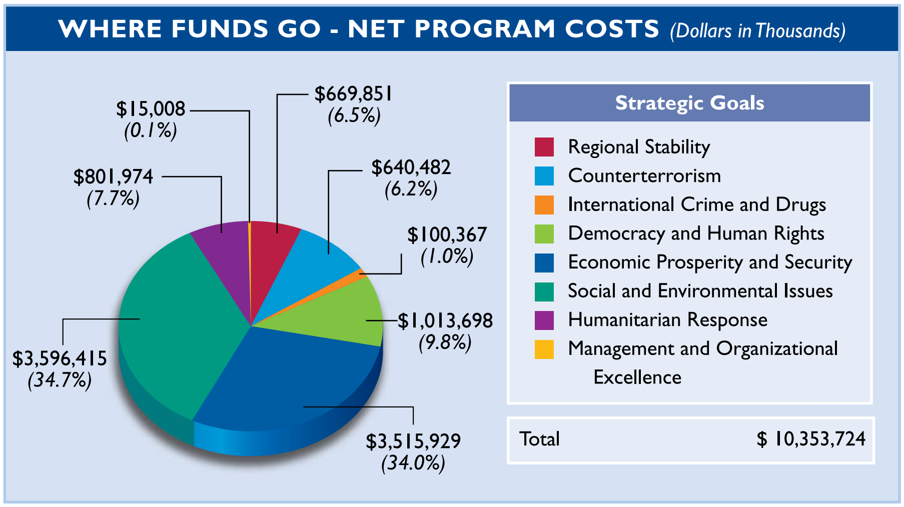
The results of operations are reported in the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position.

The Consolidated Statement of Net Cost presents the Agency's gross and net cost for its strategic goals. The net cost of operations is the gross (i.e., total) cost incurred by the Agency, less any exchange (i.e., earned) revenue. The accompanying notes to the Statement of Net Cost disclose costs by strategic goals and responsibility segments, and by intergovernmental costs and exchange revenues separately from those with the public for each strategic goal and responsibility segment. A responsibility segment is the component that carries out a mission or major line of activity, and whose managers report directly to top management. For the Agency, the pillar and regional bureaus are considered a responsibility segment. Information on the bureaus can be found in Note 18 and in the section titled "Mission Organization and Structure."

The presentation of program results by strategic goals is based on the Agency's current Joint State-USAID Strategic Plan established pursuant to the Government Performance and Results Act (GPRA) of 1993.

The Agency's total net cost of operations for 2006, after intra-agency eliminations, was $10.4 billion. The strategic goal, Social and Environmental Issues, represents the largest investment for the Agency at 35 percent of the Agency's net cost of operations. The net cost of operations for the remaining goals ranges from less than one percent to 29.2 percent. The following is a breakout of net cost by strategic goal.

Chart 3: Net Program Costs by Strategic Goal, FY 2006 *(dollars in thousands):*

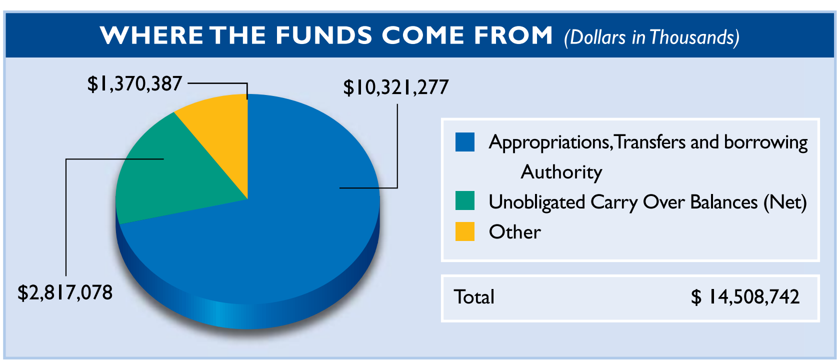


The Consolidated Statement of Changes in Net Position presents the accounting items that caused the net position section of the balance sheet to change since the beginning of the fiscal year. The statement comprises two major components: Unexpended Appropriations and Cumulative Results of Operations.

Cumulative Results of Operations amount to $1.4 billion as of September 30, 2006, an increase of 84 percent from the $760 million balance a year earlier. This balance is the cumulative difference, for all previous fiscal years through 2006, between funds available to USAID from all financing sources and the net cost of USAID.

The Combined Statement of Budgetary Resources provides information on how budgetary resources were made available to the Agency for the year and their status at fiscal year-end. For the year 2006, USAID had total budgetary resources of $14.5 billion, a decrease of 2.1 percent from 2005. Budget authority of $10.4 billion, consisted mostly of $10.3 billion for actual appropriations and $1.3 billion in collections. USAID incurred obligations of $9.5 billion for the year, a small percent decrease from the $9.8 billion of obligations incurred during 2005.

Chart 4 below, reflects Budgetary Resources that the Agency received in 2006 *(dollars in thousands):*



The Combined Statement of Financing reconciles the resources available to the Agency to finance operations with the net costs of operating the Agency's programs. Some operating costs, such as depreciation, do not require direct financing sources.

LIMITATIONS TO THE FINANCIAL STATEMENTS

The financial statements have been prepared to report the financial position and results of operations of USAID, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of USAID, in accordance with generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by the Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that USAID is a component of the U.S. government, a sovereign entity.

ANALYSIS OF USAID'S SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

MANAGEMENT ASSURANCES

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

FMFIA requires agencies to establish management controls and financial systems which provide reasonable assurance that the integrity of federal programs and operations are protected. It also requires that the Agency head, based on an evaluation, provides an annual Statement of Assurance on whether USAID has met this requirement.

INTERNAL CONTROL OVER MANAGEMENT OPERATIONS

The Management Control Review Committee (MCRC) oversees the Agency's internal control program over management operations. The MCRC is chaired by the Deputy Administrator and is composed of USAID senior managers. Individual annual certification statements from Mission Directors located overseas and Assistant Administrators (AA) in Washington, D.C., serve as the primary basis for the Agency's certification that manage-ment controls are adequate or that control deficiencies exist. The certification statements are based on informa-tion gathered from various sources, including the managers' personal knowledge of day-to-day operations and existing controls, program reviews, and other management-initiated evaluations. In addition, the Office of the Inspector General (OIG) and the Government Accountability Office (GAO) conduct reviews, audits, inspections, and investigations.

Under this program, a control deficiency occurs when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect vulnerabilities on a timely basis. Specifically, a design deficiency exists when a control necessary to meet the control objective is missing or an existing control is not properly designed, so that even if the control operates as designed, the control objective is not always met. An operation deficiency exists when a properly designed control does not operate as designed or when the person performing the control is not qualified or properly skilled to perform the control effectively.

A reportable condition exists when there is a control deficiency or combination of deficiencies that management determines should be communicated because they represent significant weaknesses in the design or operation of internal control that could adversely affect the organization's ability to meet its internal control objectives. Reportable conditions that the USAID Administrator determines are significant enough to report outside of the Agency are categorized as material weaknesses. The chart below describes the criteria that the Agency considers when conducting FMFIA reviews.

FMFIA REVIEW CRITERIA

Under the FMFIA, a material weakness is a deficiency of such significance that it should be reported to the President and Congress. A weakness of this nature might:

- impair the fulfillment of the Agency's mission
- significantly weaken safeguards against waste, loss, unauthorized use, or misappropriation of funds, property, or other assets
- violate statutory or regulatory requirements
- result in a conflict of interest
- impair the Agency's ability to use reliable and timely information for decision-making.

FISCAL YEAR 2006—ANNUAL FMFIA ASSURANCE STATEMENT

I have directed an evaluation of the system of management controls of USAID in effect during the year ending September 30, 2006. I have taken the necessary measures to assure that the evaluation was conducted in a thorough and conscientious manner, taking into consideration the cost of implementing and maintaining appropriate controls in relation to the benefits derived from them.

Management at the U.S. Agency for International Development (USAID) is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). USAID conducted its assessment of the effectiveness of the Agency's internal control over management operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation, USAID is able to provide reasonable assurance that its internal control over the effectiveness and efficiency of management operations and compliance with applicable laws and regulations and financial management systems substantially comply with the objectives of FMFIA as of September 30, 2006. However, material weaknesses were noted in the areas of physical security overseas and implementation and activity monitoring in the Asia Near East (ANE) region, which are complex, long-term issues that are not completely within USAID's scope of control. However, we are taking all appropriate actions available to us to remedy these issues.

In addition, USAID management is also responsible for establishing and maintaining effective internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations. USAID conducted its assessment of the effectiveness of the Agency's internal control over financial reporting in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation and in consideration of the inherent scope limitation due to assessing only one third of the Agency's key processes this year, USAID is able to provide a qualified statement of assurance that the internal controls over financial reporting in place as of June 30, 2006, for the four key financial processes assessed, are operating effectively with the exception of two material weaknesses identified in the area of accruals, and minor control deficiencies in all four processes. No other material weaknesses were found in the design or operation of the internal controls over financial reporting.

Because of its inherent limitation, internal control over financial reporting, no matter how well designed, cannot provide absolute assurance of achieving financial reporting objectives and may not prevent or detect misstatements. Therefore, even if the internal control over financial reporting is determined to be effective, it can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Ambassador Randall L. Tobias
Director of U.S. Foreign Assistance and
Administrator
U.S. Agency for International Development
September 30, 2006

INTERNAL CONTROL OVER FINANCIAL REPORTING

In December 2004, the Office of Management and Budget (OMB) revised Circular A-123, Management's Responsibility for Internal Control. Circular A-123 includes a new appendix, Appendix A, Internal Control Over Financial Reporting, which requires agencies to assess, document, and report on internal control over financial reporting. USAID is committed to strengthening internal control over financial reporting and is implementing a program to continuously assess, document, and report on these controls. The Agency began working toward the implementation of this program in FY 2005. The remaining work to fully implement Appendix A will be completed over the next three years, with full implementation to conclude in FY 2008. USAID will test and assess one-third of its key processes and controls over the next three years, in FY 2006, FY 2007, and FY 2008. USAID has identified 12 key processes and will assess four each year. The key processes will be assessed as follows:

YEAR ONE – FY 2006[1]	YEAR TWO –FY 2007	YEAR THREE – FY 2008
■ *Accruals* – high risk and current Government Management Reform Act (GMRA) material weakness ■ *Financial Reporting* – high risk ■ *Fund Balance with Treasury* – high risk ■ *Credit Program* – medium risk and best baseline documentation	■ *Accounts Payable* – low risk and high visibility ■ *Accounts Receivable* – medium risk ■ *Advances* – low risk ■ *Obligations* – medium risk, high impact, and testing synergies with Budget process	■ *Budget* – medium risk ■ *Statement of Net Cost* – medium risk ■ *Financial Analysis and Audits* – low risk ■ *Miscellaneous* – low risk

1. It should be noted also that the Year One key processes provide a review for all of the significant financial accounts.

The USAID Administrator is required to provide an assurance statement that accurately reflects the amount of work completed, including a scope limitation, for each of the next three years, and the results of the assessments performed. The assessment of internal control over financial reporting is performed at the Agency level and is coordinated through the Chief Financial Officer (CFO). The CFO is responsible for ensuring preparation of the Agency-wide assurance statement. The Agency Senior Assessment Team (SAT), which functions as a subset of the Management Control Review Committee (MCRC), oversees the implementation of this effort. The primary responsibilities of the SAT are to develop an overall approach, disseminate specific implementation guidance to individuals performing the assessment, report the results of the assessment to senior management, and monitor correction of control deficiencies. The Deputy CFO for Overseas Operations chairs the SAT. Other members of the SAT include representatives from key Agency offices and programs.

USAID made substantial progress in OMB Circular A-123 assessment activities during FY 2006. Specifically, management: (1) provided an initial implementation plan to OMB; (2) established a SAT as a subset of the MCRC; (3) identified the scope of financial reports to be included in the assessment of internal control over financial reporting; (4) established materiality thresholds for planning, testing, and reporting on internal controls; (5) identified significant accounts, financial statement line items, and key processes and sub-processes to be documented and tested based on a materiality level that is more rigorous than the Agency auditors; (6) established a virtual task force, comprised of both field and Washington financial personnel, to document the Agency's key processes and procedures; and (7) completed preliminary risk assessments and testing of the first four key processes and controls.

USAID is leveraging control-related activities under other compliance efforts to meet the requirements of this initiative. To the extent possible, documentation and testing from ongoing internal control initiatives will be used. Current initiatives and activities within USAID include the following:

- **Federal Information Security Management Act (FISMA)** – The annual review of USAID's information systems is a key component in the review of internal control over IT systems. The SAT will coordinate with the CIO to ensure that FISMA reviews and the results of the FISMA efforts are properly integrated in the assessment and reporting of internal control required by Appendix A.

- **Improper Payments Information Act (IPIA)** – The IPIA requires agencies to determine and report on the amount of improper payments made during the fiscal year. In determining the extent of improper payments, the SAT will coordinate with the Cash Management and Payments Division (CMP), which is responsible for assessing and reporting under IPIA.

- **Annual Financial Statement Audit** – The assessment of internal control over financial reporting required by Appendix A will complement the testing of internal controls performed as part of the annual financial statement audit. The documentation and testing of controls required by Appendix A are similar to the work done by the auditors. The SAT will coordinate with the auditors regarding these efforts. This will include requesting copies of the auditor's process cycles memos. The memos will serve as a basis for management's documentation of internal control for each of the significant cycles. In addition, the SAT will review the documentation furnished to the auditors per the audit engagement letter.

- **Annual Federal Financial Management Improvement Act (FFMIA) Reporting** – The FFMIA requires that the Agency's financial management systems substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Standard General Ledger (USSGL) at the transaction level. The annual FFMIA review is a key component in the review of internal control over financial management systems. The SAT will coordinate with the CFO to ensure that FFMIA reviews and the results of the FFMIA efforts are properly integrated in the assessment and reporting of internal control required by Appendix A.

- **Annual Federal Managers' Financial Integrity Act (FMFIA) Reporting** – The SAT considers current efforts performed under FMFIA. Weaknesses identified under FMFIA are included in the current assessment of internal control over financial reporting.

- **Implementation of Phoenix** – USAID has just completed a multi-year process of implementing a new financial system, Phoenix, in field missions overseas. The Phoenix system is compliant with federal financial regulations and standards, and consists of a fully integrated worldwide database which incorporates financial operations and reporting. Due to the unique nature and variety of field mission activities, documentation was developed as the deployment progressed, incorporating lessons learned and new functionalities. Reporting tools evolved over time and were added to meet the specific Missions' needs. For the FY 2006 assessment, the SAT reviewed this documentation to determine its sufficiency to meet the requirements of internal control over financial reporting.

The Agency utilizes the services of other federal agencies to process financial data. A review of the Agency financial operations identified the following significant service providers and their activities:

- U.S. Department of Agriculture (USDA) National Finance Center – Payroll Services

- U.S. Department of Health and Human Services (HHS) – Grant Payments

- U.S. Department of State, Charleston, SC – Phoenix Operations Host

USAID is using financial reports from these agencies to:

- Determine whether the reports address the process and controls relevant to the Agency's assessment process.

- Review the time period covered by the reports to determine whether they meet Agency needs.

- If the reports are deemed sufficient, review the opinion and testing exceptions identified by the service auditor and determine whether the effect on internal control is relevant to the assessment process.

If a service report does not exist, USAID will determine what procedures, if any, are needed. Additionally, the Agency will communicate with each service provider regarding the establishment of an ongoing relationship, necessary to coordinate the internal control assurance activities. USAID will employ this methodology throughout the multi-year effort.

The decentralized nature of the Agency's operations presents a significant challenge in developing a detailed test plan. The SAT, in conjunction with a contractor, is responsible for designing an overall testing plan for the Agency key processes and controls. Testing is based on several factors:

- Testing will be conducted over control activities determined to be designed effectively to meet the control objectives. If a control is not designed effectively, USAID will not test it because it would not achieve the control objective even if properly performed throughout the Agency.
- Testing of internal control will be based upon an assessment of risk. Items tested will be most likely to have a material impact on financial reporting.
- Testing will be influenced by other internal reviews, OIG inspections and audits, and other reviews and audits.

Procedures, including a combination of inquiry, observation, and tests of detail, will be used to test the operating effectiveness of key controls. Procedures will be performed at both Washington and overseas locations to ensure sufficient coverage.

Sample sizes for the detailed test of transactions will be designed using guidance in the CFO Council Implementation Guide for Circular A-123, and other professional guidance, such as the GAO/President's Counsel on Integrity and Efficiency (PCIE) Financial Audit Manual, and the American Institute of Certified Public Accountants (AICPA) audit sampling guide.

The Agency will continue to use a combination of in-house staff, contractors, and interns for this program. It will continue to leverage existing internal control activities (i.e., management assessments, controller assessments) to facilitate the assessments. Task forces comprised of financial management professionals will work with the SAT and contractors to perform various functions throughout the assessment of internal controls (i.e., risk assessments, documenting, testing). The assessment will be designed and incorporated in the overall FMFIA process. Testing of results will eventually be institutionalized in, and coordinated with, the Controllers' assessment program already in place for cost effectiveness and cost savings.

OMB Circular A-123 requires that the Agency document its understanding of internal control throughout the assessment process. USAID completed its baseline documentation in year one. USAID will continue to improve the documentation of control activities in subsequent years to include the following:

- Planning.
- Controls at the Entity Level: USAID will use questionnaires and the GAO's *Internal Control Management and Evaluation Tool* in the assessment of entity-wide controls. It will continue to review existing Agency policies and procedures. Narratives summarizing observations and inquiries of management will be used to document controls at the entity level.
- Controls at the Process Level: A standard control evaluation form will be developed, based on templates provided in the CFO Council implementation guide, to evaluate internal control at the process level. Key resources for ongoing review include Agency business processes, current policies and procedures, and process summaries that may be provided by OIG and/or its contract auditors.
- Interviews will be conducted with individuals responsible for processing transactions, and a walkthrough of transactions will be performed to ensure that the actual procedures are consistent with written documentation. Where necessary, supplemental narratives and/or flowcharts will be developed.
- Significant focus is given to assessing internal controls within the information systems area of the Agency. The SAT will consult with the Agency's CIO on existing documentation related to both general and application controls over the Agency's financial systems.
- Testing at the Transaction Level: Standard working papers will be developed to document testing at the transaction level. The work papers will include use of standard formats and tickmarks, and a common indexing system.
- Reporting: Results of testing will be recorded in a standard format.

The results of assessments and testing of the financial controls will be evaluated using the following criteria:

Internal control over financial reporting should assure the safeguarding of assets from waste, loss, unauthorized use, or misappropriation, as well as assure compliance with laws and regulations pertaining to financial reporting. Financial reporting includes the annual financial statements as well as other significant internal or external financial reports. Other significant financial reports are defined as any financial reports that could have a material effect on a significant spending, budgetary, or other financial decision of the Agency or that is used to determine compliance with laws and regulations on the part of the Agency. In addition to the annual financial statements, significant reports might include quarterly financial statements, financial statements at the operating division or program level, budget execution reports, reports used to monitor specific activities, and reports used to monitor compliance with laws and regulations.

A control deficiency occurs when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect vulnerabilities on a timely basis. Specifically, a design deficiency exists when a control necessary to meet the control objective is missing or an existing control is not properly designed, so that even if the control operates as designed, the control objective is not always met. An operation deficiency exists when a properly designed control does not operate as designed or when the person performing the control is not qualified or properly skilled to perform the control effectively.

A reportable condition exists when there is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles (GAAP) such that there is more than a remote likelihood that a misstatement of the entity's financial statements, or other significant financial reports, that is more than inconsequential will not be prevented or detected.

A material weakness in internal control is a reportable condition, or combination of reportable conditions, that results in more than a remote likelihood that a material misstatement of the financial statements, or other significant financial reports, will not be prevented or detected.

FMFIA MATERIAL WEAKNESSES IN MANAGEMENT OPERATIONS

NUMBER OF FMFIA MATERIAL WEAKNESSES BY FISCAL YEAR				
Fiscal Year	Number at Beginning of Fiscal Year	Number Corrected	Number Added	Number Remaining at End of Fiscal Year
2002	4	1	–	3
2003	3	–	–	3
2004	3	1	–	2
2005	2	2	–	0
2006	–	–	2	2

FMFIA MATERIAL WEAKNESSES		
Title	Fiscal Year First Identified	Corrective Action Date
Inadequate Physical Security Overseas	2001 (as reportable condition) 2006 (as material weakness)	unknown
Implementation and Activity Monitoring in ANE Region	2004 (as reportable condition) 2006 (as material weakness)	unknown

As an Agency-wide accomplishment in FY 2006, USAID managers successfully completed management control reviews of the Agency's financial, program, and administrative policies, procedures, and operations. After the results from operating units were consolidated and discussed by the MCRC, two previous reportable conditions have been elevated to material weaknesses. This forms the basis for the qualified statement of assurance provided in this report.

USAID's former office building in Asmara, Eritrea with inadequate setback from street. PHOTO: USAID/OFFICE OF SECURITY (SEC)

Inadequate physical security in USAID's overseas buildings and operations. This issue was first documented as a reportable condition in 2001. It is now considered a material weakness because USAID cannot implement cost-effective, remedial action to improve the physical security of seven of its overseas missions against the threat of vehicle-borne improvised explosive devices (VBIED).

Following the August 1998 bombings of the U.S. embassies in Kenya and Tanzania, the USAID Office of Security initiated a security survey of all USAID overseas facilities.

The findings revealed that more than 40 of the 90 USAID facilities lacked adequate countermeasures to mitigate the VBIED threat. Essentially, the buildings had insufficient setback from the perimeter and were not built to withstand significant blast effects.

USAID subsequently developed and continues to implement a concurrent, three-phase, remedial action plan. Phase one involves the collocation of vulnerable USAID missions on New Embassy Compounds (NEC) which are being constructed by the Department of State. Phase two involves the hardening of other USAID buildings and perimeters at posts where NEC facilities are not planned for, and where sufficient perimeter setback opportunities exist. Phase three includes the relocation of vulnerable USAID missions to Interim Office Buildings (IOB) which afford greater security until they can be collocated.

USAID has successfully relocated 45 vulnerable USAID Missions to more secure facilities since 1998. Eleven of those missions are now collocated in NEC facilities, while 34 USAID missions have been moved to IOB sites.

The FY 2005 Consolidated Appropriations Act, Public Law 108-447, authorized the Capital Security Cost Sharing (CSCS) program. The CSCS program requires all agencies with overseas personnel under Chief of Mission (COM) authority to help fund construction of 150 NECs over 14 years, at an annual rate of $1.4 billion per year after a five-year phase-in. In the long term, this should ensure that secure facilities are provided to meet USAID space requirements; however, the Agency does not have a short term solution for seven of its vulnerable missions.

With respect to the seven missions, NEC facilities are either not planned for under the CSCS program or are several years away from the start of construction. While the USAID Security Office has done everything possible to improve the overall physical security posture of these missions, it would not be financially prudent to spend additional money on facilities with inadequate perimeter setback and inferior building construction. The absence of suitable IOB space and inadequate funding exacerbate the situation.

Implementation and activity monitoring in the Asia and Near East (ANE) Region, most notably in Iraq, Afghanistan, Pakistan, and West Bank/Gaza. Security restrictions and, more recently, the U.S. government's "No Contact" policy toward the Hamas-led government in West Bank/Gaza, continue to inhibit travel to project sites to monitor and to meet with USAID partners. At the same time, it continues to be difficult to attract appropriately qualified staff to Missions in the critical priority countries (CPC) of Afghanistan, Iraq, and Pakistan. Together, these weaknesses limit USAID's ability to effectively implement and monitor programs and, in some cases, inhibit start-up of new programs.

During 2006, Missions in these countries continued to take steps within their authority to implement and monitor programs as well as possible. Completed and ongoing steps include improving coordination with U.S. Department of State Diplomatic Security at post; updating emergency procedures and communication systems; expanding the role of foreign service nationals (FSN), who can travel more freely, in monitoring, evaluation, and design; and expanding use of local contractors and geographic information systems for monitoring, evaluation, and audit. USAID continues to seek adequate funding for rapidly escalating security costs, which is essential for travel in these countries. The Agency is also developing a spatially enabled management information system which will allow Missions to remotely monitor progress of construction activities in real time.

Similarly, USAID continues to make efforts to improve recruitment of appropriately skilled staff for CPCs. These steps include requiring foreign service officers participating in the 2007 assignment process to bid on a CPC, where qualified; and hiring an Ombudsman who is working with individual employees, the Department of State, other agencies and counterparts to strengthen recruiting efforts as well as incentives and training for service in CPCs. It must be noted that additional resources will be needed to support staffing incentives and other selected efforts to address this material weakness. With assignments of only one year, there are continuing challenges to keeping positions filled with qualified staff. As a relatively small agency, USAID has a limited base of qualified people for these positions. USAID works aggressively to identify qualified staff and utilizes a variety of employment mechanisms to provide qualified staff to CPCs.

Improved stability and security and progressive political agreements are the essential preconditions to resolving this weakness and are beyond the manageable interest of USAID.

INTERNAL CONTROL OVER FINANCIAL REPORTING MATERIAL WEAKNESSES

The management assurance statement reflects the status of internal control over financial reporting of four key business processes at USAID as of June 30, 2006. The four business processes included in this year's assessment are: (1) Accruals, (2) Financial Reporting, (3) Fund Balance with Treasury, and (4) Credit Programs. These processes were selected for first year assessment based on a combination of risk and qualitative factors.

Based on the review, USAID identified two material weaknesses in the Agency's internal controls over financial reporting:

- Personnel preparing the quarterly accruals have not received adequate training on how to properly document and calculate quarterly accruals.
- The reconciliation between the Accruals Reporting System (ARS) and Phoenix was not performed when data were initially transferred from one database to the other.

USAID will develop and implement corrective action plans to remediate these deficiencies.

FMFIA REPORTABLE CONDITIONS

In keeping with the Agency's core concept of increasing transparency, USAID is voluntarily disclosing the following issues as reportable conditions:

TITLE	FISCAL YEAR FIRST IDENTIFIED
Lack of Effective Systems to Manage Field Support	2004
Information Technology (IT) Governance Issues	2005
Inability to Meet Statutory Requirements for Office of Equal Opportunity Programs (EOP) Reporting	2006

Lack of effective systems to manage field support. The intent of the field support system is to provide Missions easy and flexible access to a wide variety of technical services provided by centrally-managed contract and grant agreements, in a manner that meets the changing needs, priorities, and approaches of Missions' development portfolios with minimal Mission management burden. Although progress in improving the system has been made, e.g. the integration of the Field Support-USAID system (FS-AID) with the Agency's accounting system, Phoenix, the operating procedures and processes in place continue to be excessively labor intensive. The Agency is working toward integrating field support with the new grants and acquisition systems (JAMS and GLAS) which are scheduled to be deployed during FY 2007. Once this is accomplished, the remaining issues of accurate accruals reporting and pipeline analysis can be addressed.

IT Governance issues. Based on internal discussions with staff and other stakeholders, several deficiencies have been noted that pertain to lowering risk and increasing efficiency in the following key IT practice areas: IT strategic planning, enterprise architecture (EA), IT policy and practice standardization, and the full establishment of IT governance and best practices.

There is general agreement that funding the correction of these process control areas is in the best interest of the Agency. Internal assessments have pointed out that the Chief Information Officer (CIO) needs sufficient resources to provide effective IT governance. The lack of adequate funding, due to Agency budget cutbacks and the assignment of limited resources to higher priority tasks, is the major factor for the Office of the CIO's slow progress in resolving these issues. However, over the last year, progress has been made in several areas.

The Office of the CIO expects to make large strides during the next six months in closing these issues. Along with the realignment of the CIO's organization that is occurring, a process improvement plan has been developed, a process engineering group (PEG) has been formed, regular meetings occur to prioritize the tasks and artifacts needed, documentation is being developed, the process Web site is being updated, and staff training is occurring. Refer to the management challenges table in Section 4 of this report for more information on the status of initiatives under IT Governance.

Inability to meet statutory requirements for Equal Opportunity Programs (EOP) reporting. Regulations governing federal sector equal employment opportunity (EEO) require each agency to provide sufficient resources to its EEO program to ensure efficient and successful operation. Currently at USAID, statutory requirements are not being met:

- Complaints of discrimination are not processed within the regulatory timeframe, and not in accordance with all complaint processing procedures.
- Required annual compliance reports to oversight agencies have been submitted after required deadlines.
- The IG determined that the Agency reasonable accommodation program does not meet all regulatory requirements.
- Development of required training has been impeded.

In addition, USAID is only minimally able to maintain basic Agency-wide EEO services:

- Customer feedback consistently demonstrates an increased need for outreach and visibility of EOP efforts to meet the Agency's legal obligation for achieving diversity and affirmative employment.
- EOP's capacity to sustain diversity initiatives and plans to assess and monitor the representation of the Agency's various employment categories (i.e. Personal Service Contractors, a large segment of the USAID population); and to help the Agency achieve its Human Capital Strategic Plan objective to attain a diverse workforce are seriously diminished.
- Management decisions on budget, staffing, and other supporting resources have resulted in inadequate annual budget allocations; serious staff reductions; and the absence of automated data information and tracking systems to aid program operations.

To remedy this situation, the following actions have been taken:

- The EOP office received a fourth quarter FY 2006 budget increase of 67 percent.
- The Administrator authorized the filling of all EOP office vacancies.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA) COMPLIANCE ASSESSMENT

FFMIA is designed to improve federal financial management by requiring that financial management systems provide reliable, consistent disclosure of financial data in accordance with GAAP and standards. FFMIA requires USAID to implement and maintain a financial management system that complies substantially with:

- Federal requirements for an integrated financial management system
- Applicable federal accounting standards
- USSGL at the transaction level.

OIG is required to report on compliance with these requirements as part of the annual audit of USAID's financial statements. In successive audits prior to FY 2006, OIG has determined that USAID's financial management systems do not substantially comply with FFMIA accounting and system requirements. The USAID Administrator has also reported this instance of noncompliance.

During FY 2006, USAID corrected the remaining deficiencies noted in its remediation plan and completed the worldwide deployment of the financial management system. Based on these accomplishments, in March 2006, the Acting USAID Administrator certified substantial compliance with FFMIA. The OIG has also determined substantial compliance in their FY 2006 CMRA audit report. A detailed discussion of the financial systems framework, structure, and strategy is included in the Financial Section of this report.

Workers build a road from Ghazni to Gardez, linking the region to the main highway connecting Kabul to major cities.

PHOTO: INTERNATIONAL ORGANIZATION FOR MIGRATION (IOM)

GOVERNMENT MANAGEMENT REFORM ACT – AUDITED FINANCIAL STATEMENTS

The Government Management Reform Act (GMRA) of 1994 amended the requirements of the CFO Act of 1990 by requiring the annual preparation and audit of agency-wide financial statements from the 24 major executive departments and agencies, including USAID. The statements are audited by the Agency IG. An audit report on the principal financial statements, internal controls, and compliance with laws and regulations is prepared after the audit is completed.

USAID's FY 2006 financial statements received an unqualified opinion—the best possible result of the audit process. This year marks the fourth consecutive year that USAID's financial statements have achieved such an opinion. USAID also, for the fourth year in a row, significantly accelerated the preparation and audit of the FY 2006 financial statements and associated reports. Of significant note is the fact that for the first time this year the Agency closed its financial books and records and produced the financial statements using a single integrated worldwide financial system. This indicates important progress toward the Agency's goal of providing timely, accurate, and useful financial information.

In relation to internal control, the Independent Auditor's Report cites one material weakness related to USAID's accounting and reporting of accruals. A material weakness is defined as a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing assigned functions.

The audit report also names five reportable conditions, which are detailed in the table below. Reportable conditions, though not material, are vulnerabilities in the design or operation of internal control that could adversely affect the Agency's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. USAID will continue working on these issues and is pleased that the auditors have consistently acknowledged the Agency's efforts to eliminate and reduce weaknesses. The auditors are also required to report on noncompliance with laws and regulations.

The following table summarizes the weaknesses cited in the FY 2006 Independent Auditor's Report, as well as planned actions to resolve the problems.

The Senegalese town of Koungheul had long been troubled by unsanitary conditions. Thanks to the USAID-sponsored "Clean Town" initiative, there is less litter, households bag their garbage, and puddles are filled with sand.

PHOTO: DEMOCRATIÉ ET LA GOUVERNANCE LOCALE

SUMMARY OF INDEPENDENT AUDITOR'S REPORT FINDINGS FY 2006 (Refer to Independent Auditor's Report Section)		
Material Weakness	**Planned Corrective Actions**	**Target Correction Date**
Accounting and Reporting of Accruals	We have commenced a reconciliation effort which will be demonstrated during January 2007 and will be accomplished in each subsequent accruals cycle. In addition, we will review and enhance training and identify other means to improve recognition of the need for effective accrual practices.	September 30, 2007
Reportable Condition	**Planned Corrective Actions**	**Target Correction Date**
Reconciliations of Fund Balance with Treasury	We will review current procedures for consistency with the Treasury guidance and modify the procedures as appropriate. We will also consider alternatives to ensure mission reconciliation compliance.	September 30, 2007
Intragovernmental Reconciliations	Actions continue to improve reconciliations of financial data with our trading partners at other federal agencies.	September 30, 2007
Controls Over Treasury Symbol Information	In addition to reviewing procedures related to payment transactions, it is our intent to identify processes that will ensure that all types of transactions are properly identified and posted. Where corrective actions are necessary, we will resolve discrepancies as quickly as possible. Efforts to improve interfacing of transactions from the Department of Health and Human Services related to grant processing are currently underway and these actions are expected to correct this finding.	September 30, 2007
Accounting for Foreign Currency Transactions	The CFO's Phoenix team has been charged with responsibility for reviewing foreign currency accounting in Phoenix and ensuring that foreign currency accounting is improved in the upcoming year. In the meantime, we will coordinate validation of accounting information between Missions and our central accounting ledgers.	September 30, 2007
Management's Discussion and Analysis Data	Recognizing that accurate and verifiable performance information is critical to management of the Agency, USAID will re-establish policies and procedures to ensure that accurate performance information is documented and that required data quality assessments are performed.	September 30, 2007
Noncompliance with Laws and Regulations	**Planned Corrective Actions**	**Target Correction Date**
Federal Financial Management Improvement Act	Efforts to improve the overall management of Section 511 funding authority in the Phoenix accounting system operations are underway.	March 31, 2007
The Antideficiency Act	The CFO will issue an immediate notice reminding all Agency personnel of the necessity to ensure that all legal, regulatory, and internal USAID policies are followed for compliance with funds control practices.	December 15, 2006

USAID programs support primary through university education in Iraq.

PHOTO: THOMAS HARTWELL

PROGRESS MADE ON ISSUES FROM FY 2005 GMRA AUDIT

USAID has taken extensive and aggressive actions during FY 2006 to address the weaknesses from the FY 2005 audit, as indicated in the table below.

SUMMARY OF INDEPENDENT AUDITOR'S REPORT FINDINGS FY 2005		
Material Weakness	**Corrective Actions**	**Correction Date**
The Accruals Reporting System (ARS)	USAID no longer uses the ARS to record quarterly accruals information. Beginning in September 2006, users enter their accrual data directly into the primary accounting system via the Accrual Query. A reconciliation report has been developed to track accruals in the system.	October 31, 2006
Reportable Condition	**Corrective Actions**	**Correction Date**
Process for Reconciling Fund Balance with U.S. Treasury	Due to Operating Expense (OE) budget cuts and a tight Phoenix budget, a cash reconciliation tool was being considered, but was not developed and implemented before the end of this fiscal year. Reports, however, were developed that assist in tracking cash disbursement differences. Based on these reports, management can identify large discrepancies and address them. The cash reconciliation tool will be completed next fiscal year.	September 30, 2007
Process for Recognizing and Reporting Accounts Receivable	System users have received training on how to enter Accounts Receivable transactions into the accounting system and the CFO has reinforced the requirement.	April 25, 2006
Intragovernmental Reconciliation Process	Desk procedures have been established for USAID's reporting and reconciliation of Intragovernmental transactions. The Intragovernmental procedures are used in conjunction with Treasury's Federal Intragovernmental Transactions Accounting Policies Guide. The Intragovernmental procedures established a system to review transactions reported under Trading Partner 99 on a quarterly basis to ensure that they are properly classified and appropriately reported.	March 15, 2006

FEDERAL INFORMATION SECURITY MANAGEMENT ACT (FISMA)

FISMA, part of the Electronic Government Act of 2002, provides the framework for securing the federal government's information systems. Agencies covered by FISMA are required to report annually to OMB and Congress on the effectiveness of their information security programs. Specifically, FISMA requires agencies to have: (1) periodic risk assessments; (2) information security policies, procedures, standards, and guidelines; (3) delegations of authority to the CIO to ensure compliance with policy; (4) security awareness training programs; (5) procedures for detecting, reporting, and responding to security incidents; and (6) plans to ensure continuity of operations. FISMA also requires an annual independent evaluation of the Agency's information security program by the Agency IG. This report is separate from the Performance and Accountability Report (PAR). Weaknesses found under FISMA are to be identified as a significant deficiency, reportable condition, or other weakness, and FISMA weaknesses that fall into the category of significant deficiency are required to be reported as a material weakness under the FMFIA. This year's evaluation concluded that USAID generally met the requirements of FISMA, and that the Agency has made many positive strides in addressing information security weaknesses. However, USAID still faces several important challenges in the areas of certification and accreditation, contingency planning, risk assessments, security categorizations, and establishing policies and procedures. Based on last year's report, Congress awarded an A+ (a perfect 100) to USAID in recognition of the exceptional status of the information security program. USAID is the first and only federal agency to receive this distinction. USAID has developed an excellent risk-based information security program that includes processes, training, and security technologies, and the Agency expects to continue to receive high marks for its work in this area.

IMPROPER PAYMENTS INFORMATION ACT (IPIA) REPORTING

Congress has enacted several provisions of law aimed at improving the integrity of the government's payments and the efficiency of its programs and activities, including the Improper Payments Information Act (IPIA) of 2002 (Public Law No. 107-300). An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, and administrative or other legally applicable requirements. Incorrect amounts are overpayments and underpayments (including inappropriate denials of payment or service). An improper payment includes any payment that was made to an ineligible recipient or for an ineligible service, duplicate payments, payments for services not received, and payments that are for the incorrect amount.

Summarized below are the Agency's IPIA accomplishments and future plans for identifying improper payments in accordance with the IPIA and Appendix C (Requirements for Effective Measurement and Remediation of Improper Payments) to OMB Circular A-123, Management Accountability and Control.

SUMMARY OF FY 2006 ACCOMPLISHMENTS

During FY 2006, the Agency strengthened existing efforts in meeting the President's goal to eliminate improper payments.

USAID reassessed the risk assessment and the full inventory of all programs that were previously identified and reported to OMB in 2004. As in 2004, USAID's 2006 risk assessment and in-depth review concluded that all of its programs are at a low risk for improper payment and the error rate continues to decline and is far below the OMB guidance thresholds.

However, the Agency felt it was still necessary to conduct various levels of internal improper payment reviews and samplings for all USAID programs and payment activities throughout the year and, in fact, identified two payment activities that warranted further scrutiny. The Agency focused its in-depth review and samplings on USAID's contracts, grants, and cooperative agreements as well as the cash disbursements program activities since they represent 77 percent of USAID's total 2006 outlays. Additionally, all new programs, high profile programs, and high dollar programs were considered as risk-susceptible programs and subject to further analysis, review, and recovery.

The Agency developed various reports and data mining tools to review its payment activities for erroneous payments processed through the accounting system, Phoenix. Currently, all payment activities are subject to a series of monthly internal reviews by CFO staff who analyze and compare data outputs/reports, cross-reference and compare this data to ensure that payment data is accurate, and monitor the improper payment rate on an ongoing basis. The sampling of the financial systems review includes setting report parameters to identify all potential duplicate payments by vendor, invoice number, and dollar value. Each potential improper payment that is identified is investigated regardless of the dollar value. The monthly reports reviewed include the Phoenix Disbursement, Metric Tracking System (MTS) Indicator, Schedule of Disbursements and Credits (SF1098), Cash Management and Payment Metric, and the Penalty Interest reports.

FUTURE PLANS

A major milestone was accomplished in August 2006 with the completion of the overseas rollout of Phoenix. Now that the Office of the CFO has the capability to access and monitor USAID's payment activities worldwide in Phoenix, future IPIA review efforts of worldwide payment activities will be more streamlined, yielding enhanced effectiveness, efficiency, and results.

During 2006, the Office of the CFO explored the feasibility of using various professional recovery auditor services to assist in the identification and recovery of potential erroneous payments, and engaged the services of Horn & Associates, Inc., Recovery Auditors. The contract is in place and several of the security clearances have been completed. It is anticipated that the recovery auditors will be on board in November 2006. The Agency embraces the opportunity and looks forward to working closely with the recovery auditors in identifying risk susceptible programs and recovering potential improper payments.

The prospects for additional and significant improper payment reductions in the coming years are promising due to the innovative tools and controls that are now in place.

OTHER MANAGEMENT INFORMATION, INITIATIVES, AND ISSUES

THE PRESIDENT'S MANAGEMENT AGENDA

The President's Management Agenda (PMA) is the President's strategy for improving the management and performance of the federal government. USAID has made significant progress in its business transformation and this has been reflected in the Agency's progress and status scores on each of the PMA's government-wide initiatives. Issued quarterly by the Office of Management and Budget (OMB), a Management Scorecard rates progress and overall status in each of the PMA initiatives using a color-coded system of red, yellow, and green. For more information on the PMA and the Management Scorecard, please visit http://www.whitehouse.gov/results/agenda/index.html

As of September 30, 2006, USAID had six green scores and one yellow score for progress toward its seven initiatives. The Agency currently has green status scores for Faith-Based and Community Initiatives and Budget and Performance Integration; yellow status scores for Human Capital, Financial Performance, E-Government, and Real Property; and red status for Competitive Sourcing.

The following pages present an overview of USAID's PMA Scorecard as of September 30, 2006.

PROGRESS

USAID STRATEGIC MANAGEMENT OF HUMAN CAPITAL

STATUS

Goal

Build, sustain, and deploy effectively a skilled, knowledgeable, diverse, and high-performing workforce aligned with strategic objectives.

Progress

- Demonstrated refinements in the Agency's workforce model to assist in budget and regionalization decisions.
- Completed "Manage to Budget" pilots.
- Improved Agency's accountability system which resulted in the approval of the Agency accountability system by the Office of Personnel Management (OPM) Panel.
- Conducted the Federal Human Capital Survey (FHCS).
- Conducted review of the general schedule (GS) performance management beta site and resubmitted the Performance Appraisal Assessment Tool (PAAT).
- Updated succession plan on leadership based on OPM's review.
- Met major milestones for Proud to Be Version IV (PTB IV) and demonstrated progress in closing gaps in Mission Critical Occupation(s) (MCO), human resources (HR), information technology (IT), leadership and submitted report.

Upcoming Actions

- Begin "Manage to Budget" implementation.
- Continue corrective actions identified in System Accountability Initiative, and submit written response to OPM audit.
- Analyze results of FHCS to strengthen human capital (HC) systems if results are received.
- Refine Workforce Planning Model based on Transformational Diplomacy direction. Conduct gap analysis based on changes.
- Meet Learning Management System (LMS) targets.
- Work with OPM on improvements to PAAT beta site.
- Continue to demonstrate progress on PTB IV milestones and MCOs, HR, IT, time to hire, leadership, etc.
- Strengthen Agency recruitment process based on analysis of Delegated Examining Unit (DEU) audit, OPM Career Patterns Guide, and Chief Human Capital Officer (CHCO) Satisfaction Surveys; and report on results.
- Complete management assessment of regional bureaus.
- Meet Electronic Official Personnel Folder (e-OPF) targets.
- Revise USAID survey.
- Ensure alignment of Senior Executive Service (SES) plan with Agency Strategic goals and objectives.
- Update Leadership/Knowledge of Management portions of Program Management Plan (PMP).

PROGRESS

IMPROVED FINANCIAL PERFORMANCE

STATUS

Goal

Improve accountability through audited financial statements; strengthen management controls; implement financial systems that produce timely, accurate, and useful financial information to facilitate better performance measurement and decision-making.

Progress

- Completed Phoenix post-implementation review.
- Transitioned to steady state following completion of Phoenix worldwide rollout.
- On August 23 provided a preliminary OMB Circular A-123 Appendix A assurance statement based on draft testing results; briefed OMB on USAID program and implementation approach.
- Determined Federal Managers' Financial Integrity Act (FMFIA) and OMB Circular A-123 Appendix A material weaknesses and finalized required OMB Circular A-123 assurance statements.
- Met with OMB to discuss approach for assessing significant risk of improper payments in any of its programs.
- Revised Green Plan based on OMB comments.
- Completed Agency-wide year-end close using Phoenix for the first time.

Upcoming Actions

- Issue FY 2006 Performance and Accountability Report (PAR) on time (by November 15, 2006) and submit draft PAR to OMB for review and clearance at least 10 days before the due date.
- Receive unqualified audit opinion on all financial statements for FY 2006.
- Continue efforts to fully implement new requirements of OMB Circular A-123, utilizing 3-year plan.
- Revise Green Plan based on OMB recommendations and reach agreement on next steps and estimated Green date.
- Submit updated draft OMB Circular A-123 Assurance Statement by October 25, 2006.
- Review corrective action plans for all new and repeat weaknesses with OMB.

PROGRESS

BUDGET AND PERFORMANCE INTEGRATION

STATUS

Goal

Improve performance of programs and management by linking performance to budget decisions and improve performance tracking/management. The ultimate goal is to better control resources and have greater accountability of results. Eventual integration of existing segregated and burdensome paperwork requirements for measuring the government's performance and competitive practices with budget reporting.

Progress

- Update Program Assessment Rating Tool (PART) improvement plans (due August 2, 2006).
- Efficiency measures report (due August 15, 2006).
- Finalize Proud to Be by July 14, 2006 laying out major actions for FY 2007 that will keep USAID at Green Status.
- Brief OMB senior management on how the new planning and budgeting system will support the integration of performance and budget.
- Finalize Five-Year Foreign Assistance Goal and Objectives Framework which will serve as key component of the Joint State-USAID Strategic Plan for FY 2008 - FY 2012.
- Met with and provided OMB documentation by July 31, 2006 on format and content plans for the FY 2008 Budget Submission.

Upcoming Actions

- Submit USAID Final PAR, incorporating joint Performance Section with Department of State, based on FY 2006 State-USAID Joint Performance Plan by November 15, 2006. Submit draft PAR to OMB for review and clearance at least 10 days before the due date.
- FY 2007 Operational Plan Guidance that explains the new database system capturing integrated performance and budget information completed and issued to USAID (and Department of State) operating units.
- Conduct worldwide training for USAID and Department of State on preparation and use of Operational Plans (described above).
- Update all PART performance data, improvement plans, and funding by November 20, 2006.
- Work with OMB to ensure performance information is integrating into Congressional Justification in a meaningful way.
- Establish a green plan for improving performance and efficiency.
- Begin review with OMB on new definition of PART programs.
- Submit draft FY 2008 Foreign Assistance Congressional Budget Justification material to OMB by December 31, 2006.
- Submit complete draft Joint Strategic Plan with USAID to OMB in first quarter 2007. Finalize for distribution by February 5, 2007.

PROGRESS

COMPETITIVE SOURCING

STATUS

Goal

Achieve efficient, effective competition between public/private sources; establish infrastructure to support competitions and validate savings and/or significant performance improvements.

Progress

- Announced streamlined competition with Most Efficient Organization (MEO) for directives/records management.
- Began monitoring cost performance of MEO for USAID/Washington (W) facility management services.
- Awarded contract to support feasibility assessments and began the assessment of two new Federal Activities Inventory Reform (FAIR) Act Inventory (FAI) commercial activities.

Upcoming Actions

- Substantially complete streamlined competition with MEO for Directives and Records Management functions begun at end of fourth quarter of FY 2006.
- Complete business analysis/feasibility study of visual services business activity begun at the end of the fourth quarter. Subject to Business Transformation Executive Committee (BTEC) and Competitive Sourcing Official (CSO) endorsement, initiate and complete preliminary planning and make a final competition decision. Begin selection of Agency Competitive Sourcing (CS) support contractor in preparation for FedBizOpps announcement early in the second quarter.
- Identify an additional Agency commercial code B activity for business case/feasibility study.
- Begin work on 2007 FAI submission.
- Prepare OMB 647 submission regarding FY 2006 CS accomplishments.
- Update USAID "Yellow" CS strategic plan to reflect foreign affairs reforms including management assessments of USAID/W functions and organizations, and changes in USAID's 2006 FAI submission to OMB.

PROGRESS	EXPANDED ELECTRONIC GOVERNMENT	STATUS

Goal

Expand the federal government's use of electronic technologies (such as e-Clearance, Grants.gov, and e-Regulation), so that Americans can receive high-quality government service, reduce the expense and difficulty of doing business with the government, cut government operating costs, and make government more transparent and accountable.

Progress

- Began deployment of the Performance Based Management System (PBMS) using Earned Value Management (EVM) consistent with American National Standards Institute/Electronics Industries Alliance (ANSI/EIA) Standard 748 (a).
- Completed the development of the PBMS/EVMA System Description Document; Initiate PBMS/EVMS Pilot Phase.
- Provided EVMS Baseline for the Procurement System Improvement Project and monthly status reports for Technology Modernization.
- Monitored the use and published utilization, execution of E-Government and Line of Business (LoB) initiatives.
- Submitted quarterly Federal Information Security Management Act (FISMA) update to OMB.
- Designated a Chief Privacy Officer (CPO) to expanded Senior Agency Official for Privacy (SAOP) Privacy Program duties.
- Posted 75 percent of discretionary grant applications packages on Grants.gov including all discretionary grant programs using only the SF-424 family of forms.
- Implemented the use of Federal Procurement Data System-Next Generation for all required transactions over $2,500.
- Finalized milestones for quarterly Enterprise Architecture (EA) reporting with OMB on July 10, 2006, and submitted first report.
- USAID designated a Senior Agency Official for Geospatial Information per OMB Memorandum 06-07.
- Submitted list of impacted investments and baseline cost estimates for IT investments being modified, replaced, or retired due to Agency use of an E-Gov or LoB initiative September 30, 2006 in compliance with M-06-22.

Continued on next page

PROGRESS

EXPANDED ELECTRONIC GOVERNMENT *Continued*

STATUS

Upcoming Actions

- Deploy the PBMS using EVM consistent with ANSI/EIA Standard 748 (a) for all appropriate investments within the IT portfolio and continued to expand adoption of EVM throughout the Agency.
- Work with the Department of State to deploy interim Personal Identity Verification Version II / Phase 2 (PIV-II) solution to meet the October 27, 2006 deadline.
- Provide OMB the Agency's and Inspector General (IG) response to privacy questions in FISMA report.
- Monitor use and publish utilization execution of E-Gov initiatives.
- Submit quarterly FISMA update to OMB.
- Submit annual FISMA report to OMB.
- Submit quarterly EA progress reports to OMB.
- Submit annual E-Government Report by October 20, 2006 in compliance with M-06-25.
- Determine and submit internal funding plans to OMB in advance and for the preparation of the 2007 Report to Congress on the benefits of E-Government.
- Used Joint Enterprise Architecture (JEA) business architecture to identify and prioritize business functions that should be addressed and focused EA resources on getting results from actions in those areas.
- Used the EA to help guide investment decisions concerning the investment portfolio and reflected it in the EA transition plan.
- Develop Joint EA on selected Joint Management Council (JMC) business segments.
- Update JEA Transition Strategy with major investments and JMC initiatives
- Submit a revised Exhibit 53 by Friday, December 29, 2006 via ITWeb.

PROGRESS

FAITH-BASED & COMMUNITY INITIATIVES

STATUS

Goal

Identify and remove the inexcusable barriers that thwart the work of faith-based and community organizations.

Progress

- Provide interim reports on New Partner's Initiative.
- Submit final report for Geneva Global Pilot Project (written by the awardee).
- Secures funding for the FY 2006 data collection.
- Continue to monitor compliance with equal treatment regulation.
- Continue with plan for outreach to USAID mission staff to explain the Initiative, general regulation, and provide OMB with notice of upcoming conference opportunities.

Upcoming Actions

- Provide interim reports on New Partner's Initiative.
- Continue to monitor compliance with equal treatment regulation.
- Continue with plan for outreach to USAID mission staff to explain the Initiative, general regulation.
- Provide OMB with notice of any upcoming conference opportunities.
- Develop or update new outreach materials including USAID Center for Faith-Based and Community Initiative (CFBCI) Web site.
- Complete draft of FY 2005 Annual Report summarizing activities of CFBCI.
- Meet White House data collection deliverable for FY 2006 data.

PROGRESS

REAL PROPERTY

STATUS

Goal

To promote the efficient and economical use of America's real property assets.

Progress

- Finalized the three-year rolling timeline.
- Continued to develop interim targets and long term goals for the Federal Real Property Council (FRPC) performance measures.
- Determined future disposition of identified assets.
- Identified assets prioritized for investment.
- Provided evidence that the Asset Management Plan (AMP) is being implemented to achieve real property management.

Upcoming Actions

- Meet all milestones established in the Three-Year Timeline and Proud to Be Version IV (PTB IV).
- Coordinate the reporting of USAID's data to the Federal Real Property Profile (FRPP) via the Department of State Real Property Application (RPA) system.
- Finalize the interim targets and long term goals for the FRPC performance measures.
- Establish FY 2007 disposal goal by identifying specific assets for disposal.
- Use lease benchmarking figures obtained from Overseas Buildings Operations (OBO) to analyze posts in the 90th percentile of lease costs.
- Demonstrate initial use of real property inventory and performance reports by USAID.
- Continue to verify the reported condition index data and complete the prioritized investment list.
- Finalize protocol to work jointly with the Department of State to conduct condition assessments for data validation.